



24 August 2009

**THE MANAGER
COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

Dear Sirs

re : Phosphagenics Limited

HALF-YEARLY REPORT : APPENDIX 4D

Enclosed for release to the market is the Company's Appendix 4D Report for the half-year ended 30 June 2009 inclusive of the signed Financial Report of the Company for that period.

Yours faithfully
Phosphagenics Limited

Mourice Garbutt
Company Secretary
poh\asx\half-yearly report 30 06 09

About Phosphagenics Limited

Phosphagenics is a Melbourne-based, globally driven biotechnology company focused on the discovery of new and cost effective ways to enhance the bioavailability, activity, safety and delivery of proven pharmaceutical and nutraceutical products. Phosphagenics' core technology is built around the science and application of phosphorylation, a process where the addition of a phosphate group has been found to enhance the bioavailability, activity and safety of existing pharmaceuticals and nutraceuticals, as well as to assist in the production of drug delivery platforms. Phosphagenics' shares are listed on the Australian Stock Exchange (POH) and its ADR – Level 1 program was established in the U.S. with The Bank of New York Mellon (PPGY) for U.S. investors to trade in Phosphagenics' stock on the 'over-the-counter' market. In July 2007, this was upgraded to the International OTCQX, a new premium market tier in the U.S. for international exchange-listed companies, operated by Pink Sheets, LLC.

Phosphagenics Limited

(ABN 32 056 482 403)

Appendix 4D

Half Year Report for the period ended on 30 June 2009

Table of Contents

Section 1 Title Page

Section 2 Highlights of Results, Dividends & Analysts Information

Section 3 Statutory Section 320 Accounts

Financial Report for the half-year period ended 30 June 2009 inclusive of a full set of accounts per AASB 134 together with the Audit Review and Audit Independence Statement

Section 4 Audit Alert

Section 2: HIGHLIGHTS OF RESULTS, DIVIDENDS & ANALYSTS INFORMATION

The following comment is to be read in conjunction with the summarised results report:

The results for the half-year period ended 30 June 2009 reflect:

For the 6 months ended 30 June 2009 the Company returned an after tax loss of \$3.584 million (2008: \$4.121 million).

During the period, the Company continued to advance the commercialisation of its unique patented delivery technology with the following results:

- 1. Completed a transdermal insulin trial in humans demonstrating its TPM/insulin formulation safely delivered insulin into patients with Type 1 diabetes. This is the first time ever insulin has been delivered transdermally into patients with Type 1 diabetes without the use of a device.*
- 2. Completion of its Phase 1 diclofenac study which demonstrated that its patented TPM/diclofenac formulation was safe and well tolerated in humans. The results also indicate that Phosphagenics' formulation can deliver significant amounts of diclofenac deep into the area of application. Within thirty minutes of the application of Phosphagenics' patented formulation, diclofenac was detected in the blood of subjects, indicating both rapid absorption and deep penetration.*
- 3. Completion of a two-staged Phase 1 clinical trial demonstrating not only that the Company's patented drug delivery system could significantly increase the delivery of retinoic acid, but in addition it could do so with less irritation than a leading commercial product used for the treatment of acne, Retin-A®.*
- 4. Completion of pre-clinical studies relating to its patented TPM/oxycodone transdermal patch system. The results demonstrated that by incorporating TPM/oxycodone into innovative patch systems developed by Phosphagenics, the delivery of oxycodone was significantly increased when compared to the Company's TPM/oxycodone gel alone.*
- 5. Signed a research and option agreement with globally specialty biopharmaceutical company CSL Limited ("CSL"). Under the terms of the agreement Phosphagenics will receive undisclosed option, milestone and royalty payments should CSL elect to pursue formulations that result from the collaboration.*
- 6. Completion of successful Phase 1 clinical trial demonstrating that repeat applications of TPM/oxycodone formulation does not cause significant opioid induced erythema or sensitisation. Erythema (skin reddening) and sensitisation can typically occur when opioids are exposed to the skin and have until now been a limiting factor in commercialising transdermal opioids. This was a crucial milestone in Phosphagenics opioid development commercialisation program.*

As at 30 June 2009 funds in hand totalled \$9.313 million (2008: \$15.630 million); refer to the Statement of Cash Flow. At 30 June 2009 Shareholders Equity totalled \$48.191 million (2008: \$138.421 million); refer to the Statement of Changes in Equity.

To examine in detail the information referred to above please visit the Company's website at: www.phosphagenics.com or contact the Company by telephone +613 9565 1119 or by facsimile +613 9565 1151

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report Period Ended 30 June 2009

(Previous Corresponding Period: Half year ended 30 June 2008)

The Appendix 4D should be read in conjunction with the most recent Financial Report

Results for announcement to the market

		\$A'000	\$A'000
		6 months 30 June 2009	6 months 30 June 2008
Revenues from ordinary activities	(Down 34%)	1,462	2,200
(Loss) from ordinary activities after tax attributable to members	(Down 13%)	(3,584)	(4,121)
Net (Loss) for the period attributable to members	(Down 13%)	(3,584)	(4,121)

Dividends (distributions)	Amount per security	Franked amount per security
6 months ended 30 June 2009 N/A	-	N/A ¢
6 months ended 30 June 2008 N/A	-	N/A ¢
Record date for determining entitlements to the dividend	N/A	

Net Tangible Assets Per Security

Net tangible assets per security (with the comparative figure for the previous corresponding period):

	30 June 2009	30 June 2008
Net tangible assets per security	1.52 Cents	2.69 Cents

Brief explanation necessary to enable the figures above to be understood:

For the 6 months ended 30 June 2009 the Company returned an after tax loss of \$3.584 million (2008: \$4.121 million).

During the period, the Company continued to advance the commercialisation of its unique patented delivery technology with the following results:

1. Completed a transdermal insulin trial in humans demonstrating its TPM/insulin formulation safely delivered insulin into patients with Type 1 diabetes. This is the first time ever insulin has been delivered transdermally into patients with Type 1 diabetes without the use of a device.
2. Completion of its Phase 1 diclofenac study which demonstrated that its patented TPM/diclofenac formulation was safe and well tolerated in humans. The results also indicate that Phosphagenics' formulation can deliver significant amounts of diclofenac deep into the area of application. Within thirty minutes of the application of Phosphagenics' patented formulation, diclofenac was detected in the blood of subjects, indicating both rapid absorption and deep penetration.
3. Completion of a two-staged Phase 1 clinical trial demonstrating not only that the Company's patented drug delivery system could significantly increase the delivery of retinoic acid, but in addition it could do so with less irritation than a leading commercial product used for the treatment of acne, Retin-A®.
4. Completion of pre-clinical studies relating to its patented TPM/oxycodone transdermal patch system. The results demonstrated that by incorporating TPM/oxycodone into innovative patch systems developed by Phosphagenics, the delivery of oxycodone was significantly increased when compared to the Company's TPM/oxycodone gel alone.
5. Signed a research and option agreement with globally specialty biopharmaceutical company CSL Limited ("CSL"). Under the terms of the agreement Phosphagenics will receive undisclosed option, milestone and royalty payments should CSL elect to pursue formulations that result from the collaboration.
6. Completion of successful Phase 1 clinical trial demonstrating that repeat applications of TPM/oxycodone formulation does not cause significant opioid induced erythema or sensitisation. Erythema (skin reddening) and sensitisation can typically occur when opioids are exposed to the skin and have until now been a limiting factor in commercialising transdermal opioids. This was a crucial milestone in Phosphagenics opioid development commercialisation program.

As at 30 June 2009 funds in hand totalled \$9.313 million (2008: \$15.630 million); refer to the Statement of Cash Flow. At 30 June 2009 Shareholders Equity totalled \$48.191 million (2008: \$138.421 million); refer to the Statement of Changes in Equity.

To examine in detail the information referred to above please visit the Company's website at: www.phosphagenics.com or contact the Company by telephone +613 9565 1119 or by facsimile +613 9565 1151

Phosphagenics Limited Appendix 4D, Half-Yearly Report for the period ended 30 June 2009
--

Section 3: STATUTORY SECTION 320 ACCOUNTS

The Financial Report for the half-year period ended 30 June 2009, as attached, is inclusive of:

Directors' Report	2
Auditor's Independence Declaration	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Cash Flow	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12
Directors' Declaration	18
Independent Auditor's Report	19

Phosphagenics Limited

ABN 32 056 482 403

Condensed Financial Report
for the half year ended 30 June 2009

Contents

Directors' Report	2
Auditor's Independence Declaration	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Cash Flow	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12
Directors' Declaration	18
Independent Auditor's Report	19

Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2009.

DIRECTORS

The names and particulars of the Directors of Phosphagenics Limited in office at any time during or since the end of the period:

**ASSOCIATE PROFESSOR ANDREW LANCELOT VIZARD (AGED 51 YEARS) BVSC (HONS) MVPM
NON-EXECUTIVE INDEPENDENT DIRECTOR SINCE JULY 1999 AND CHAIRMAN SINCE OCTOBER 2000
LAST RE-ELECTED MAY 2007**

With a background in research and agricultural consultancy, Professor Vizard is the Senior Consultant with and former Director of the Mackinon Project at the University of Melbourne. This enterprise is recognised as a leader in delivering practical advice to farmer and agribusiness on a wide range of agricultural and economic issues. Professor Vizard is the author of over fifty scientific papers.

Professor Vizard has formally been a board member of numerous statutory, scientific and commercial organisations. He is currently a Non-Executive Director of Ridley Corporation Ltd and Animal Health Australia Ltd, a Trustee of the Australian Wool Education Trust and a member of the Management Advisory Committee for Melbourne Water.

Professor Vizard is a member of the Company's Audit, Compliance and Corporate Governance Committee.

**HARRY ROSEN (AGED 61 YEARS) BA , LLB
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER SINCE DECEMBER 2005
LAST RE-ELECTED MAY 2004***

Mr Rosen is one of the founders of Betatene Limited and Denehurst Limited, two formerly ASX-listed companies which commercialised significant research and development. Betatene is the world's largest producer of natural beta carotene. After the purchase of Betatene Limited by Henkel Corporation, Mr Rosen served as Vice President, Corporate Development. As a Vice President of Henkel Corporation, he worked for a number of years in the U.S. in the nutrition and health care industries.

Mr Rosen has consulted to many technology companies assisting them with the commercialisation of new technologies. He has had significant experience in the areas of seed capital raising, stock exchange listings, taxation and corporate law. Mr Rosen graduated from the Australian National University (BA-Psychology) and Melbourne University (LLB).

* As Managing Director/ Chief Executive Officer Mr Rosen is not required to retire by rotation.

**JONATHAN LANCELOT ADDISON (AGED 56 YEARS) BEC (TAS), ASIC, CFTP (SNR)
INDEPENDENT DIRECTOR SINCE NOVEMBER 2002
LAST RE-ELECTED MAY 2008**

Mr Addison has over 30 years in the investment management industry, including wide experience in superannuation. Currently he is the Investment Manager (formerly Fund Manager) of the Meat Industry Employee Superannuation Fund (MIESF) whom he joined in June 1999 and where he is responsible for the investment

management of MIESF.

MIESF, a self-administered industry superannuation fund established in 1981 which operates nationally, currently holds 21,800,000 shares in Phosphagenics Limited. Prior to his appointment to MIESF, Mr Addison was a Director and Asset Consultant within the corporate finance section of PricewaterhouseCoopers and in this role was responsible for establishing an investment consulting practice with clients ranging from superannuation funds to insurance funds and funds managers. Prior to that, he was a Manager Investment Consultant at Sedgwick Noble Lowndes.

Mr Addison also holds Non-Executive Directorships with Austcorp Group Limited, Austcorp Funds Management Limited, African Enterprise Limited, African Enterprises New Zealand Limited, Hawksbridge Limited, Global Masters Fund Limited and TPCG Limited. Mr Addison is the Chairman of the Company's Audit, Compliance and Corporate Governance Committee.

**PROFESSOR JOHN MILLS (AGED 69 YEARS) BS (HONS), MD, FACP, FRACP
INDEPENDENT DIRECTOR SINCE MARCH 2004
LAST RE-ELECTED MAY 2007**

Professor Mills has a long and distinguished career in medical research, clinical medicine and biomedical business. In addition to his position as a Non-Executive Director of Phosphagenics, he is Executive Chairman of Cavid AB, Executive Director of TissuePath Pty Ltd and a Non-Executive Director of GBS Venture Partners Pty Ltd. He was previously a Non-Executive Director (1995-2003) and Chairman (2001-2) of AMRAD Corporation. He is also a Non-Executive Director of the Prostate Cancer Foundation of Australia and Chair of the PCFA Research Committee. He holds professional appointments at Monash University, the University of California, San Francisco and RMIT, and is a consulting physician at The Alfred and Austin Hospitals in Melbourne.

Professor Mills has published over two hundred scientific articles and has served as a consultant to the pharmaceutical industry and governments, the World Health Organization and the United Nations.

Professor Mills is a member of the Company's Audit, Compliance and Corporate Governance Committee.

**MICHAEL RICHARD DWYER ASHTON (AGED 63 YEARS) BPHARM, MBA
INDEPENDENT DIRECTOR SINCE JULY 2008
LAST RE-ELECTED MAY 2009**

Mr Ashton has more than 30 years' experience in the international pharmaceutical industry having held senior management positions with Merck Inc. and Pfizer Inc., and executive board positions with Faulding Inc. and SkyePharma Plc.

Mr Ashton was CEO and Director of SkyePharma Plc., he was responsible for the re-organisation of SkyePharma AG as a public enterprise (1997-1998). In 1998 he took over responsibility of the operations of the SkyePharma Plc. group and re-organised the international structure in Europe, the U.S. and the world wide Business Development Group.

Earlier Mr Ashton was Chairman, President and CEO of Faulding Inc., the U.S. subsidiary he opened for FH Faulding, Australia's largest pharmaceutical company, and CEO of Purepac Inc. During that time, he supervised the start-up of David Bull in the U.S. and Canada and oversaw restructuring of Purepac Inc., into a leader of the U.S. generic pharmaceutical industry.

In addition, Mr Ashton served with Pfizer International for 14 years in various roles, which included Director of Pharmaceutical Business Development for Europe/Canada, Vice President of Pharmaceutical Development for

Africa/Middle East, Pharmaceutical Business Director of Nigeria and Group Product Manager for the International Division in New York.

Mr Ashton previously applied his pharmacist background to various management positions during six years at Merck Sharp and Dohme in Sydney and the U.S. Mr Ashton is a member of the Boards of Hikma Pharmaceuticals Plc, Proximagen Neuroscience Plc and Transition Therapeutics Inc.

Mr Ashton holds a Bachelor of Pharmacy degree from Sydney University and a Masters in Business Administration from Rutgers University, New Jersey, U.S

**DR ESRA OGRU (AGED 34 YEARS) BSC (HONS) PHD
CHIEF OPERATING OFFICER SINCE JANUARY 2009
LAST RE-ELECTED MAY 2009**

Dr Ogru is responsible for the management of the operations in Australia and internationally. She achieves this through leadership of a team of experienced pharmaceutical scientists and chemists and strategic collaborations.

In this role, Dr Ogru has developed commercial opportunities for both the Company's nutraceutical division and pharmaceutical technologies, such as transdermal drug delivery and drug enhancement platforms for cancer, heart disease and chronic pain management.

Dr Ogru has many years experience in both the academic and commercial aspects of the industry and has publications in peer-reviewed journals. Prior to joining Phosphagenics in 2001, Dr Ogru carried out significant research on obesity and diabetes. Additionally, she has considerable experience in the management and coordination of pre-clinical and clinical development of pharmaceutical products.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the production, sale and licensing of products for the nutraceutical and pharmaceutical industries.

RESULTS

For the six months ended 30 June 2009, the Company returned an after tax loss of \$3.584 million (2008: \$4.121 million). The principal activity of Phosphagenics and its controlled entities for the half year period was the continued development of the Company's intellectual property on which \$1.453 million (2008: \$3.705 million) was expensed.

Cash at 30 June 2009 totalled \$9.313 million (2008: \$15.630 million); refer to the Statement of Cash Flow. As at 30 June 2009 Shareholders Equity totalled \$48.191 million (2008: \$138.421 million); refer to the Statement of Changes in Equity.

DIVIDENDS

The Directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the period to 30 June 2009.

REVIEW AND RESULTS OF OPERATIONS

During the period, the Company continued to advance the commercialisation of its unique patented delivery technology with the following results:

1. Completed a transdermal insulin trial in humans demonstrating its TPM/insulin formulation safely delivered insulin into patients with Type 1 diabetes. This is the first time ever insulin has been delivered transdermally into patients with Type 1 diabetes without the use of a device.
2. Completion of its Phase 1 diclofenac study which demonstrated that its patented TPM/diclofenac formulation was safe and well tolerated in humans. The results also indicate that Phosphagenics' formulation can deliver significant amounts of diclofenac deep into the area of application. Within thirty minutes of the application of Phosphagenics' patented formulation, diclofenac was detected in the blood of subjects, indicating both rapid absorption and deep penetration.
3. Completion of a two-staged Phase 1 clinical trial demonstrating not only that the Company's patented drug delivery system could significantly increase the delivery of retinoic acid, but in addition it could do so with less irritation than a leading commercial product used for the treatment of acne, Retin-A®.
4. Completion of pre-clinical studies relating to its patented TPM/oxycodone transdermal patch system. The results demonstrated that by incorporating TPM/oxycodone into innovative patch systems developed by Phosphagenics, the delivery of oxycodone was significantly increased when compared to the company's TPM/oxycodone gel alone.
5. Signed a research and option agreement with globally specialty biopharmaceutical company CSL Limited ("CSL"). Under the terms of the agreement Phosphagenics will receive undisclosed option, milestone and royalty payments should CSL elect to pursue formulations that result from the collaboration.
6. Completion of successful Phase 1 clinical trial demonstrating that repeat applications of TPM/oxycodone formulation does not cause significant opioid induced erythema or sensitisation. Erythema (skin reddening) and sensitisation can typically occur when opioids are exposed to the skin and have until now been a limiting factor in commercialising transdermal opioids. This was a crucial milestone in Phosphagenics opioid development commercialisation program.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2009 there was no significant change in the state of affairs of the consolidated entity other than that referred to in the half-year report or notes thereto.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance, other than that referred to in the half-year report and notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly this information has not been disclosed in this report.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless stated otherwise) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

REGISTERED OFFICE

Level 2, 90 William Street, Melbourne, Victoria 3000

Signed in accordance with a resolution of the Board of Directors:


A handwritten signature in black ink, appearing to read 'A. Vizard', with a stylized flourish at the end.

Associate Professor Andrew Lancelot Vizard
Chairman and Independent Director

Dated this 24th day of August 2009

Auditor's Independence Declaration to the Directors of Phosphagenics Limited

In relation to our review of the financial report of Phosphagenics Limited for the half-year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Don Brumley'.

Don Brumley
Partner
24 August 2009

Statement of Comprehensive Income

for the half-year ended 30 June 2009

	Notes	Consolidated	
		30 June 2009 \$'000	30 June 2008 \$'000
Revenue			
Sale of goods	3a	670	446
Income from government grants	3a	480	457
Royalties	3a	-	539
Finance revenue	3a	239	406
Total Revenue		1,389	1,848
Cost of sales		(228)	(160)
Gross Profit		1,161	1,688
Rental Revenue	3a	73	49
Other income	3a	-	323
Employee and Directors benefits expenses	3b	(1,801)	(1,078)
Occupancy and communications expenses		(133)	(298)
Consulting and professional expenses		(457)	(470)
Administration expenses		(285)	(223)
Research expenses		(1,453)	(3,705)
Other expenses	3c	(689)	(407)
Loss before income tax		(3,584)	(4,121)
Income tax/(expense)		-	-
Loss after income tax expense		(3,584)	(4,121)
Other Comprehensive Income			
Foreign currency translation		(14)	-
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		(14)	-
Total comprehensive income for the period		(3,598)	(4,121)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the parent			
basic earnings per share		(0.54 cents)	(0.70 cents)
diluted earnings per share		(0.54 cents)	(0.70 cents)

Statement of Financial Position

as at 30 June 2009

	Notes	Consolidated	
		As at 30 June 2009 \$'000	As at 31 December 2008 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	5	9,313	12,896
Trade and other receivables		136	232
Inventories		18	212
Other current assets		151	170
Total Current Assets		9,618	13,510
Non-current assets			
Intangible assets		54,226	53,918
Property, plant and equipment		1,642	1,761
Total Non-Current Assets		55,868	55,679
TOTAL ASSETS		65,486	69,189
LIABILITIES			
Current liabilities			
Trade and other payables		1,064	1,432
Provisions		103	76
Total Current Liabilities		1,167	1,508
Non-current liabilities			
Deferred tax liabilities		16,128	16,128
Total Non-Current Liabilities		16,128	16,128
TOTAL LIABILITIES		17,295	17,636
NET ASSETS		48,191	51,553
EQUITY			
Contributed equity	10	170,330	170,316
Accumulated losses		(150,832)	(147,248)
Reserves		28,693	28,485
TOTAL EQUITY		48,191	51,553

Statement of Cash Flow

for the half-year ended 30 June 2009

	Notes	Consolidated	
		30 June 2009 \$'000	30 June 2008 \$'000
Cash flows from operating activities			
Receipts from customers and related parties		568	1,628
Receipts of government grants		528	457
Payments to suppliers and employees		(4,897)	(6,099)
Net cash flows from used in operating activities		(3,801)	(4,014)
Cash flows from investing activities			
Interest received		252	286
Purchase of property, plant and equipment		(48)	(130)
Net cash flows from investing activities		204	156
Cash flows from financing activities			
Proceeds from share issues		14	8,773
Net cash flows from financing activities		14	8,773
Net increase in cash and cash equivalents		(3,583)	4,915
Cash and cash equivalents at beginning of the period		12,896	10,715
Cash and cash equivalents at end of the period	5	9,313	15,630

Statement of Changes in Equity

for the half-year ended 30 June 2009

	Consolidated				Total
	Contributed Equity	Employee Benefits Reserve	Revaluation & Foreign Currency Translation Reserve	Accumulated Losses	
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2009	170,316	626	27,859	(147,248)	51,553
Total comprehensive income for the half year, net of tax	-	-	(14)	(3,584)	(3,598)
Employee equity settled benefits	-	222	-	-	222
Issue of shares	14	-	-	-	14
Balance at 30 June 2009	170,330	848	27,845	(150,832)	48,191
Balance at 1 January 2008	161,543	448	27,812	(56,042)	133,761
Total comprehensive income for the half year, net of tax	-	-	-	(4,121)	(4,121)
Employee equity settled benefits	-	8	-	-	8
Issue of shares	8,773	-	-	-	8,773
Balance at 30 June 2008	170,316	456	27,812	(60,163)	138,421

Notes to the Financial Statements

for the half-year ended 30 June 2009

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half year ended 30 June 2009 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act, 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2009 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2009 in accordance with the continuous disclosure obligations of the ASX Listing rules.

Changes in Accounting Policy

From 1 January 2009 the Group has adopted the following Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2009. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group. However, the adoption of AASB 8 has caused the Group to revise its segment reporting. Refer to note 2 for details of the reportable segments and applicable accounting policies.

- AASB 2 Revised Vesting Conditions and Cancellations
- AASB 8 Operating Segments
- AASB 101 Revised Presentation of Financial Statements

The Group has not elected to early adopt any new standards or amendments.

2. SEGMENT INFORMATION

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and his management team (the chief operating decision makers) in assessing the performance and in determining the allocation of resources.

The operating segments are identified by management based on the group's risks and returns that are affected predominantly by differences in the products and services provided. The reportable segments are based on aggregated operating segments determined according to the nature of the products and services provided, with each reportable segment representing a strategic business unit that offers different products and serves different markets.

Types of products and services

Nutraceuticals

Nutraceuticals is the use of vitamins and nutritious products to improve human health. The nutraceutical business is developing active ingredients for the following market segments:

- Dietary Supplements - e.g. vitamin capsules & tablets. Phosphagenics is using its patented technology to orally deliver dietary supplements aimed at improving bioavailability and efficacy.
- Functional Foods and Beverages - e.g. nutritionally enhanced foods. Functional foods are an expanding nutraceutical market division, aimed at improving the nutritional benefits of everyday foods.
- Personal care products. Discovery research at Phosphagenics has shown that α -tocopheryl phosphate (TP) is a natural molecule with increased activity over standard Vitamin E (α tocopherol). TP has scientifically proven anti-inflammatory properties, it reduces redness, protects against UV induced photo damage, and also helps to heal and prevent acne. The structure of TP allows it to act as a penetration enhancer, increasing dermal absorption compared to tocopherol acetate and α -tocopherol, allowing it to penetrate deeper into the skin for increased action. TP is also able to increase the penetration of molecules formulated in the same cream.

Phosphagenics' nutraceutical business is a revenue-generating growth business. The route to market for Phosphagenics' nutraceutical products is through partnering with companies that have established distribution networks within the relevant market segments. Phosphagenics does not intend to become a direct marketer of products to consumers, and aims to manufacture and supply the active ingredients to its partners or distributors where commercially feasible.

Pharmaceuticals

Phosphagenics' pharmaceutical division is focused on:

- Drug delivery – enhancing the delivery of existing drugs orally or through the skin, utilising Phosphagenics' delivery technology TPM
- Drug enhancement – augmenting the biological activity of existing drugs by adding a phosphate group to the chemical structure of the drug

The route to market for Phosphagenics' pharmaceutical products is through partnering with a larger pharmaceutical company at the appropriate stage in a product's development so as to maximise return on the Company's research and development investment.

The core competencies of the pharmaceutical business are generation of pharmaceutical intellectual property and translation of this knowledge base into commercially viable product candidates for the treatment of human conditions and disease.

Phosphagenics' strategy is to capitalise on its proprietary technology through joining its resources and development capabilities with co-development partners or licensees.

The objective of any development or marketing agreement entered into is to generate revenues from three sources:

- milestone payments and development fees during the pre-marketing phases of product development;
- royalties on product sales by partners; and
- manufacturing and supply of product to partners, predominantly of the phosphorylated delivery compound.

Phosphagenics choice of development products is based strictly upon the market opportunity and the overall commercial viability of each individual drug candidate, including assessment of the current and expected competition for the product, the cost, timing and degree of difficulty to commercialise the product, the patent status of the drug compound and the market size of the drug to be developed.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in note 1 to the accounts.

The following table presents revenue and profit information regarding business reportable for the half-year periods ended 30 June 2009 and 30 June 2008.

Half-year ended 30 June 2009	Nutraceuticals \$'000	Pharmaceuticals \$'000	Total Group \$'000
Revenue			
Sales and Royalties	670	-	670
Grant Income	-	480	480
Total segment revenue	<u>670</u>	<u>480</u>	1,150
Other revenue			<u>239</u>
Total revenue per statement of comprehensive income			<u>1,389</u>
Result			
Segment result			(3,584)

Half-year ended 30 June 2008	Nutraceuticals \$'000	Pharmaceuticals \$'000	Total Group \$'000
Revenue			
Sales and Royalties	985	-	985
Grant Income	-	457	457
Total segment revenue	<u>985</u>	<u>457</u>	1,442
Other revenue			<u>406</u>
Total revenue per statement of comprehensive income			<u>1,848</u>
Result			
Segment result			(4,121)

3. REVENUES AND EXPENSES

	Consolidated	
	30 June 2009	30 June 2008
	\$'000	\$'000
a) Revenue & Income		
Sales revenue	670	446
Income from Commercial Ready grant	304	457
Income from P3 grant	176	-
Royalties	-	539
	1,150	1,442
Interest revenue	239	406
Total finance revenue	239	406
Rental Revenue	73	49
Other income	-	323
Total revenue and income	1,462	2,220
b) Salaries and employee benefits expense		
Salaries and wages	(1,446)	(966)
Superannuation	(133)	(104)
Employee equity settled benefits	(222)	(8)
Total salaries and employee benefits expense	(1,801)	(1,078)
c) Other expenses		
Other operating expenses	(689)	(407)
Total other expenses	(689)	(407)
d) Seasonality of Operations		
Phosphagenics Limited operations are not affected by seasonality		

4. DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2009. (2008: NIL)

5. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2009 \$'000	31 December 2008 \$'000
For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	3,313	2,896
Short-term deposits	6,000	10,000
	9,313	12,896
Total Cash and Cash Equivalents	9,313	12,896

6. SHARE BASED PAYMENTS

Share option fair values are calculated using a Binomial model. The options will be settled in ordinary shares of Phosphagenics Limited and vested options lapse if unexercised after the expiry date.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Phosphagenics Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

A service period was determined as the most appropriate criteria to attach to the options given Phosphagenics is still developing its products for commercialisation. There are no other services or performance criteria attached to share based payment options.

The first tranche, of 650,000 options, vested immediately at a fair value of 10.54 cents per option. The second tranche of 3,000,000 options, vest over 12 months at a fair value of 7.17 cents per option.

During the six months ended 30 June 2009, 3,650,000 share options were granted under the Employee Share Option Plan (2008: NIL). The following table lists the inputs to the model used for the half-year ended 30 June 2009.

	Consolidated		30 June 2008
	30 June 2009 Tranche 1	30 June 2009 Tranche 2	
Dividend yield (%)	0.00%	0.00%	-
Expected volatility (%)	65%	65%	-
Risk-free interest rate (%)	5.28%	4.49%	-
Option life (years)	10 years	5 years	-
Option exercise price (\$)	13.70 cents	15.0 cents	-

7. INVENTORIES

There were no inventory write-downs recognised as an expense during the half-year ended 30 June 2009 (2008: NIL).

8. PROPERTY, PLANT & EQUIPMENT**Acquisitions and disposals**

During the half-year ended 30 June 2009, the Group acquired assets with a cost of \$61,951 (2008: \$142,625).

9. COMMITMENTS AND CONTINGENCIES**Lease Commitments**

At 30 June 2009 the Group has commitments of \$110,969 (2008: \$154,920) relating to non-cancellable operating leases over the office and manufacturing facilities, which expire in 2009 and 2010.

10. CONTRIBUTED EQUITY

	Consolidated	
	(No. '000's)	(\$'000's)
Issued and paid up capital		
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends		
Movement in ordinary shares on issue:		
At 1 January 2009	663,542	170,316
Issue of shares	-	-
Exercise of options	67	14
Transaction costs on share issue	-	-
At 30 June 2009	663,609	170,330
At 1 January 2008	603,440	161,544
Issue of shares	60,102	9,015
Exercise of options	-	-
Transaction costs on share issue	-	(243)
At 31 December 2008	663,542	170,316

11. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

Directors' Declaration

In accordance with a resolution of the directors of Phosphagenics Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards AASB 134: Interim Financial Reporting and Corporations Regulations 2001: and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Associate Professor Andrew Lancelot Vizard
Chairman and Independent Director

Melbourne
24 th August 2009

To the members of Phosphagenics Limited

Report on the Condensed half-year Financial Report

We have reviewed the accompanying half year financial report of Phosphagenics Limited, which comprises the statement of financial position as at 30 June 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end.

Directors' Responsibility for the Half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phosphagenics Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Phosphagenics Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Don Brumley'.

Don Brumley
Partner
Melbourne
24 August 2009

Section 4: AUDIT ALERT

As at 30 June 2009 and as the date of this Report there are no matters of dispute or qualification or likely dispute or qualification.